



# Memorandum

September 5, 2012

To: Jim Dinley, Municipal Administrator  
From: Christopher Brewton, Utility Director, Electric Department  
Subject: **Blue Lake Hydroelectric Expansion Project- Award of Contract No. 9 – General Construction**

## Request:

I request Assembly approval authorizing the City Administrator to issue Barnard Construction a Notice of Award, to clarify and confirm a final price, and to enter into an agreement for Contract No. 9, General Construction for the Blue Lake Expansion Project. The maximum amount of this contract would be the bid amount of \$92,975,300. In addition, I request the Assembly approve a 4% contingency of \$3,719,000, bringing the total requested amount to \$96,694,300.

## Background:

The City and Borough of Sitka advertised for the Blue Lake Expansion Project General Construction Contract on May 1, 2012. Prospective bidders showed considerable interest in the project, with more than 50 individuals attending the project pre-bid conference on May 22 and 23.

Four bids were received at the bid opening on July 31, 2012. The bid results as received on July 31 are as follows:

Company	Base Bid Amount	Comments
ASI Constructors, Inc.	\$84,231,085	Responsive Bidder
Barnard Construction Co, Inc.	\$92,975,300	Responsive Bidder
Kiewit Infrastructure West Co	\$101,181,850	Responsive Bidder
PCL Construction	Non Responsive	No bid price form was submitted

## Evaluation of Bids:

The bids were reviewed by Department staff and its consultants. The review process was described in detail in the City Assembly Update document discussed with the Assembly at the September 10<sup>th</sup> work session.

In general a four step process was used to evaluate the proposals consisting of:

1. Individual evaluations by each review team member,
2. Team evaluation of the bids,
3. Summarizing the findings and recommending award, and
4. Notifying the Bidders of the results.

1. Based on our findings from utilizing the above four step process the Best Evaluated Bidder is Barnard Construction Company, Inc.

The anticipated contract amount will be:

Project Construction (contract amount)	\$92,975,300
Contingency (held by the City for change items)	<u>\$3,719,000*</u>
<b>Total</b>	<b>\$96,694,300</b>

\*The contingency amount is lower than what we would normally recommend. With Assembly approval, we would increase this number if needed at the time of the second bond issuance.

### **Funding:**

Additional funding of \$71 Million will need to be secured to award the Contract.

Following research by our Bonding Consultant, A. Dashen & Associates and communications with the Alaska Municipal Bond Bank Authority (AMBBA) and its Bond Counsel, we have identified three possible funding scenarios as follows:

- Scenario 1 - \$18 million added state grant, future rate increases allowed for the “Bond Test”.
- Scenario 2 – No added state grant, future rate increases allowed for the “Bond Test”.
- Scenario 3 – No added state grant, no future rate increases allowed for the “Bond Test”.

Scenario 3 is the most onerous alternative which assumes no added State support and requires that all needed electric rate increases are in place at the time of the various bond sales. City staff are pursuing added State funding which, if obtained at the 50% matching rate, would be \$18 million. Also staff is investigating, with the help of bonding consultants and the AMBBA, opportunities for different bond sale programs which would allow a series of bond sales and a sequence in electric rate increases.

The impact on Sitka’s electric rates for each of these scenarios are described in the following:

### **Impacts on Electric Rates in Sitka:**

#### **Scenario 1 - Bond sales with \$18 million added state funding and future rate increases allowable.**

<u>Fiscal Year</u>	<u>Rate required to meet bond test</u>
2012	\$0.098/kWh (old rate prior to Sept. 2012 rate increase)
2013	\$0.11/kWh (current average rate following Sept 2012 rate increase)
2014	\$0.124/ kWh
2015	\$0.132/ kWh
2016	\$0.142/ kWh
2017	\$0.147/ kWh

**Scenario 2 - Bond sales with no additional state funding and future rate increases allowable.**

<u>Fiscal Year</u>	<u>Rate required to meet bond test</u>
2012	\$0.098/kWh (old rate prior to Sept. 2012 rate increase)
2013	\$0.124/kWh
2014	\$0.138/ kWh
2015	\$0.153/ kWh
2016	\$0.158/ kWh

**Scenario 3 - Bond sales with no additional state funding and no future rate increases allowable.**

<u>Fiscal Year</u>	<u>Rate required to meet additional bond test</u>
2012	\$0.098/kWh (old rate prior to Sept. 2012 rate increase)
2013	\$0.124/kWh
2014	\$0.137/ kWh
2015	\$0.150/ kWh
2016	\$0.155/ kWh
2017	\$0.158/ kWh

In the worst case scenario our electric rates would rise to \$0.158/kWh in 2017. This assumes no added state funding, no reductions in cost for the project (through negotiations with the selected contractor), and no increase in energy sales within the City's electric system. Any of these additions in funding, energy sales, or cost reductions would reduce the electric rates indicated above. It is recommended that the City proceed with procuring financing based on the worst case, Scenario 3, because this is the best alternative available at this time. Additional state funding will be pursued to reduce this amount.

**Alternatives to Contract Award:**

As will be reviewed with the Assembly in the September 10 work session, Electric Department staff and our Construction Management consultant believe that cancellation of the project would be economically the worst choice for the City of Sitka.

We also are convinced that rejecting bids and re-bidding the project would lead to overall project costs greater than what we are faced with, combined with at least a one-year delay in the project.

**Recommendation:**

I recommend the Assembly authorize the Municipal Administrator to issue to Barnard Construction Company, Inc. a Notice of Award, clarify and confirm a final price, and enter into an agreement for Contract No. 9, General Construction for the Blue Lake Expansion Project. The maximum amount of this contract would be the bid amount of \$92,975,300. In addition, I recommend the Assembly approve a 4% contingency bringing the total requested project cost to \$96,694,300. We will keep the Assembly informed on the status of the project.

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Re: Blue Lake Expansion Construction Contract Award  
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**Proposed Motion:**

I MOVE to authorize the Municipal Administrator to issue Barnard a Notice of Award and enter into an agreement for Contract No. 9, General Construction and obligate project funds in the amount of \$96,694,300 from the Blue Lake Third Turbine and Dam Upgrade Capital Project No. 90594: and execute this action on behalf of the Assembly of the City & Borough of Sitka.

Cc: Jay Sweeney, Finance Director  
Dean Orbison, Blue Lake Project Manager